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NEA/ELA; NSC FOR MARCHESE; TREASURY FOR GLASER/LEBENSON

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TAGS: ECON EFIN EINV SY

SUBJECT: NEW ISLAMIC BANKS POPULAR, BUT BOARDS REFLECT SAME OLD FACES

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CLASSIFIED BY: CHARGE D'AFFAIRES MICHAEL CORBIN, REASONS 1.4 B/D

11. (C) SUMMARY. DURING A RECENT CONFERENCE ON ISLAMIC BANKING, THE SARG CONTINUED TO PROMOTE ITS ISLAMIC BANKING EFFORTS AS A SIGN OF ITS "ISLAMIC" CREDENTIALS AND TO CLAIM SOLIDARITY WITH OTHER ARAB STATES. THE FIRST TWO SYRIAN ISLAMIC BANKS, WITH FOREIGN INVESTMENT FROM QATAR, KUWAIT AND SAUDI ARABIA, WERE HEAVILY OVERSUBSCRIBED IN THEIR RECENT PUBLIC OFFERINGS, DEMONSTRATING HOW POSITIVELY THE NEW SECTOR IS VIEWED BY THE LOCAL POPULACE AND HOW HIGH EXPECTATIONS ARE FOR IT TO TURN AROUND SIGNIFICANT EARLY PROFITS. DESPITE SARG CLAIMS, HOWEVER, PUBLIC SHAREHOLDERS AND CONTACTS CONTINUE TO EXPRESS CONCERNS ABOUT A LACK OF TRANSPARENCY AND COMPETENT OVERSIGHT. END SUMMARY

12. (SBU) ISLAMIC BANKING CONFERENCE: UNDER THE SPONSORSHIP OF THE CENTRAL BANK GOVERNOR, ADIB MAYALEH, THE SECOND ANNUAL ISLAMIC BANKING CONFERENCE, ATTENDED BY REGIONAL FINANCIAL EXPERTS, AS WELL AS SYRIA'S BUSINESS ELITE, CONCLUDED ON MARCH 13. THE CONFERENCE HAD STRONG ISLAMIC OVERTONES, BUT WAS LESS STRIDENT THAN LAST YEAR'S CONFERENCE (REF A). THIS YEAR, MAYALEH FOCUSED MORE ON PRESENTING SYRIA AS A MODERNIZING ECONOMY ON PAR WITH ITS ARAB BROTHERS THAN ON PROMOTING ISLAMIC BANKING AS AN ANSWER TO U.S. PRESSURE. THE SARG DID CONTINUE TO TOUT ITS ISLAMIC CREDENTIALS, HOWEVER, RECOMMENDING THAT THE MINISTRY OF AWQAF (ISLAMIC TRUSTS) ENCOURAGE SYRIANS TO INVEST IN ISLAMIC BANKING AND FULFILL THEIR RELIGIOUS DUTY OF ALMSGIVING - WITH ZAKAT (ALMS) POTENTIALLY BEING PAID THROUGH THE ISLAMIC BANKS. THE CONFERENCE ALSO PROMOTED THE BROADER ISLAMIC ECONOMIC APPROACH BEING UNDERTAKEN BY THE SARG, HIGHLIGHTING THE RECENT LICENSING OF THE FIRST ISLAMIC INSURANCE COMPANY, AL AQILA - A KUWAITI-BACKED COMPANY THAT IS EXPECTED TO OFFER ITS SHARES IN THE FIRST HALF OF 2007 WITH A TOTAL CAPITAL OF \$40 MILLION.

13. (C) FIRST ISLAMIC BANKS SOON TO OPEN: ALTHOUGH IT REMAINS UNCLEAR WHETHER THE ISLAMIC BANKING SECTOR WILL BE A SUCCESS, THERE IS DEMONSTRATED FOREIGN INVESTOR AND LOCAL INTEREST IN IT (REF B). THE FIRST TWO ISLAMIC BANKS TO RECEIVE LICENSES IN SYRIA, THE QATARI-BACKED CHAM ISLAMIC BANK AND THE KUWAITI-BACKED SYRIAN INTERNATIONAL ISLAMIC BANK (SIIB) RECENTLY COMPLETED THEIR INITIAL PUBLIC OFFERINGS AND ARE EXPECTED TO BEGIN OPERATIONS OVER THE NEXT FEW MONTHS. AS AN INDICATION OF PUBLIC DEMAND FOR ISLAMIC SERVICES, CHAM ISLAMIC BANK OFFERED 25 PERCENT OF ITS TOTAL CAPITAL AND HAD AN OVERSUBSCRIPTION OF 525 PERCENT, WHILE SIIB OFFERED 51 PERCENT OF ITS TOTAL CAPITAL AND WAS OVERSUBSCRIBED BY 335

PERCENT - WITH MORE THAN 15,000 SHAREHOLDERS. GOVERNOR MAYALEH ANNOUNCED AT THE CONFERENCE THAT IN ADDITION TO THE TWO ISLAMIC BANKS ALREADY LICENSED, THE SAUDI AL-BARAKA BANK WILL RECEIVE ITS FINAL LICENSE IN A FEW DAYS. CONTACTS HAVE TOLD ECONOFF THAT THERE ARE MORE THAN TEN OTHER ISLAMIC BANKS WAITING TO BE LICENSED - PRIMARILY WITH GULF INVESTORS.

14. (C) ISLAMIC BANKS VULNERABLE TO CORRUPTION: CONTACTS STATE THAT THE SARG IS TRYING TO PROMOTE ISLAMIC BANKS AS "EVERYMAN'S BANKS" TO APPEAL TO THE POOR AND RELIGIOUS-MINDED ELEMENTS OF SOCIETY, ESPECIALLY SUNNIS. SO FAR, THE NEW ISLAMIC BANKS HAVE BEEN LESS TRANSPARENT AND MORE EXCLUSIVE THAN THE SPIN WOULD INDICATE. THE CHAM BANK IS A CASE IN POINT, WITH WOULD-BE INVESTORS PRIVATELY VOICING COMPLAINTS ABOUT A LACK OF TRANSPARENCY DURING ITS RECENT PUBLIC OFFERING. THE STRUCTURE OF THE BANK'S PUBLIC OFFERING DID NOT ALLOW THESE INVESTORS TO GAIN ENOUGH SHARES TO BE ON THE BOARD OF DIRECTORS OR INFLUENCE MANAGEMENT DECISIONS. INSTEAD, THE INSIDERS REMAIN IN CONTROL, WITH THE LIST OF BOARD NAMES REVEALING THE SAME CRONIES INVOLVED IN ALL OTHER POTENTIALLY LUCRATIVE NEW BUSINESS DEALS, INCLUDING THOSE LIKE SYRIAN BUSINESSMAN NABIL KUZBARI, & THE PAPER KING<sup>8</sup> AND CONFIDANT OF RAMI MAHKLOUF (COMMENT: SEVERAL OF KUZBARI'S RELATIVES HAVE ALSO CONVENIENTLY INVESTED IN THE SAME BANK. END COMMENT.) THE CHAM BANK WAS ALSO THE FIRST BANK TO ORGANIZE ITS PUBLIC OFFERING UNDER SYRIAS NEWLY CREATED STOCK MARKET COMMISSION. AS A FURTHER INDICATION OF POTENTIAL INSIDER COLLUSION, MOHAMMED AL-IMADI, CHAIRMAN OF THE SYRIAN SECURITY AND STOCK MARKET BOARD, WAS STILL ALLOWED TO BECOME AN INVESTOR IN CHAM BANK.

15. (C) COMMENT: THE SARG IS TRYING TO PROMOTE ISLAMIC BANKING AS A VIABLE ALTERNATIVE TO WESTERN FINANCIAL INSTITUTIONS, BUT ITS CLAIMS OF SUCCESS ON THIS FRONT HAVE YET TO BE REALIZED. CONTACTS underscore that without the development

of the transparent oversight tools and strict regulations essential to the success of Islamic banking, this could be a risky endeavor for the SARG. Also disconcerting is the standard cast of corrupt Syrian players who are moving aggressively to gain a major stake in the sector. Overall, the SARG's support for Islamic banking seems to have less to do with providing a new resource for its citizens and more to do with the SARG's desire to use Islamic banking to gain favor with Syria's predominant Sunni population.

CORBIN